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SUBJECT: CODEL NELSON SCENESETTER

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SUMMARY  
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1. (SBU) Embassy La Paz warmly welcomes CODEL Nelson to Bolivia February 21. Shortly after indigenous coca leader Evo Morales' one-year anniversary as president, Bolivians find themselves again facing the social unrest that has plagued their country since 2003, but which had subsided after Morales took office. The fourth president in as many years, Morales rose to power promising a "revolution" that would deliver a more inclusive society, a new constitution, nationalization of natural resources, and land reform.

Morales has delivered on some of his promises, but is facing increasing difficulties governing Bolivia, which he himself has exacerbated this year by condoning and even encouraging street protests against those who oppose him. While we support Morales' stated goal of social inclusion, serious questions exist about his commitment to democracy and to the rule of law--our top priorities here-- particularly given his demonstrated impatience with compromise. Cuban and Venezuelan advice, interference, and assistance are an additional area of concern.

2. (SBU) Summary continued: Although Bolivia's macro-economic outlook remains strong in the short term, Morales' nationalization of hydrocarbons and the February 9 move against non-U.S. interests in the mining sector will threaten new investment. Trade should be key to Bolivia's future, and Congress' extension of ATPDEA benefits was well-received here. The GOB has shown little real interest in a long-term trade agreement. On counter-narcotics, the Morales government's mixed results on counter-narcotics reflect its confused strategy -- encouragement of coca cultivation (and thus, more cocaine) coupled with increased interdiction efforts. Your visit provides an opportunity to encourage Morales to follow a democratic path and to respect U.S. mining interests; to take counter-narcotics issues more seriously and to become a true partner in fighting the flow of illegal drugs; and to take advantage of free trade and other opportunities, including the Millennium Challenge Account (MCA).  
End summary.

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BOLIVIA: BACKGROUND NOTES  
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3. (SBU) Landlocked Bolivia is the highest and most isolated of the

Latin American republics. Once over 780,000 square miles, Bolivia lost large chunks of its land to Chile and Paraguay, leaving it with some 424,000 square miles, roughly three times the size of Nevada. Aymara indigenous groups dominate La Paz and the highlands; the Quechuas populate the cities of Sucre and Cochabamba and surrounding areas. The rich lowlands, known as the "half-moon" states, tend to be less influenced by indigenous cultures. The government recognizes 38 different indigenous groups and over 60 percent of Bolivians identify themselves as indigenous, making Bolivia the most indigenous country in Latin America. Bolivia is a country of contrast, with a small prosperous minority of its population immersed in modern business and technology and the overwhelming poor majority still mired in poverty and living relatively unchanged by progress.

14. (SBU) Rapidly urbanizing Bolivia is the second poorest country in Latin America, with poverty afflicting two-thirds of its population.

In 2005, its GDP was approximately USD 8.5 billion. Agriculture accounts for roughly 14.5 percent of Bolivia's GDP, and soybeans grown in eastern Bolivia are the major cash crop. Extraction of minerals and hydrocarbons make up an estimated 10 percent of GDP, with manufacturing accounting for another 12 percent. Lack of economic opportunities has fueled mass migration to Argentina, Brazil, Spain, and the United States, as well as rural-to-urban and western-to-eastern migration within the country.

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SOCIAL UNREST  
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15. (SBU) Shortly after indigenous coca leader Evo Morales' one-year anniversary as president, Bolivians find themselves again facing the social unrest that has plagued their country since 2003, but which had subsided after Morales took office. The fourth president in as many years, Morales rose to power promising a "revolution" that would deliver a more inclusive society, a new constitution, nationalization of natural resources, and land reform. A sharp political strategist, Morales has delivered on some of his promises, and has maintained high popularity rates. However, his first year in office has brought Morales to terms with the difficulties of governing Bolivia. He has exacerbated the challenge by condoning street protests against those who opposed him. A cocalero ambush of Bolivian anti-drug forces in the Chapare, a mining clash in Huanuni, a 500,000-person strong demonstration in favor of regional autonomy in eastern Bolivia, January riots in Cochabamba, and a February 7 protest by miners in La Paz have presented Morales with serious challenges.

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DEFENDING DEMOCRACY  
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16. (SBU) While we support Morales' stated goal of social inclusion, serious questions exist about his commitment to democracy and to the rule of law--our top priorities here--particularly given his demonstrated impatience with democratic rules and compromise. Bolivia convened a constitutional convention in August 2006, which to date has failed to make any progress, largely due to executive branch interference and Morales' opposition to Bolivian constitutional norms and traditions. Before the convention may begin its work, it must decide what vote will be required to approve constitutional changes. The GOB has taken a hard-line approach, repeatedly refusing to compromise with the opposition. Morales has packed the Supreme Court using recess appointments, instructed his party to pass a questionable land reform law and a military treaty with Venezuela in a late-night senate session November 28, and permitted violence against opposition hunger strikers, as well as the kidnapping of an opposition prefect. Most recently, the GOB is widely thought to have instigated the January protests in Cochabamba aimed at sacking an opposition prefect. (Despite GOB denials, evidence exists that the administration paid, transported and fed armed cocaleros who were bussed to Cochabamba to riot against an opposition-led local government). In addition to frequent public attacks on the opposition, Morales also has targeted Bolivia's prefects (governors), eastern Bolivia (because it seeks regional autonomy), the judiciary, and the press.

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¶17. (SBU) In addition to internal pressures, Cuban and Venezuelan advice, interference, and assistance continue to be a serious concern. Cuban doctors and newly-inaugurated hospitals bring medical care to isolated communities. Venezuela has agreed to purchase Bolivian soy, has provided micro credit financing to small businesses, has donated tractors to Bolivian farmers, and has funded community radio stations to broadcast the GOB's messages. Most recently, the Venezuelan government has agreed to buy essentially all of Bolivia's tainted beef, otherwise quarantined by an outbreak of hoof-and-mouth disease, as well as its industrialized coca. These Venezuelan programs receive frequent public acclaim from Bolivia's poor. On the other hand, middle class Bolivians resent Venezuela's growing presence and influence, and have balked at the Bolivian military singing the Venezuelan national anthem and depending on Venezuelan-donated helicopters to transport their president. Regionally, Bolivia has strengthened ties with Chile, but has alienated Brazil and Argentina at various points over the past year, largely because of its nationalistic but incoherent hydrocarbons policy.

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NATIONALIZATION OF RESOURCES AND TRADE

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¶18. (SBU) Although Bolivia's macro-economic outlook remains strong in the short term, Morales' nationalization of hydrocarbons and moves against non-U.S. interests in the mining sector (where the bulk of U.S. investments lie) threaten new investment. On May 1, 2006, Morales announced GOB nationalization of the hydrocarbons sector. Despite the presence of Bolivian troops in hydrocarbons fields, the reality was less dramatic. Instead of a traditional nationalization, the GOB required companies to sign new contracts under duress and gave Bolivia's state oil company YPFB control over the entire hydrocarbons chain. The main impact has been to halt new investment in the sector, which Bolivia needs to meet domestic demand and fulfill contractual obligations to Brazil and Argentina. As a political measure, however, the "nationalization" remains wildly popular.

¶19. (SBU) With respect to the mining sector, high-level GOB officials have given repeated assurances that the Morales administration will respect existing U.S. mining interests. However, the GOB has reiterated threats to nationalize the mining industry, and on February 9 took over a smelter owned by Swiss company Glencore (which had been sold by ex-President Gonzalo Sanchez de Lozada). We continue to urge the GOB to respect existing mining concessions and to limit tax and royalty hikes.

¶110. (SBU) Trade is the key to Bolivia's future. Congress' extension of Andean Trade Promotion and Drug Eradication Act (ATPDEA) benefits was well-received here, ensuring the continuity of thousands of jobs. However, high-level GOB officials refuse to take serious steps toward a free trade agreement, instead advocating the extension of the unilateral trade preferences. We have explained that "fast track" trade promotion authority expires in June, and that the new U.S. Congress is not likely to extend it. The Morales administration, however, continues to want something for nothing.

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COCA CASTS SHADOW

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¶111. (SBU) The Morales government's mixed results on counter-narcotics reflect its confused strategy-encouragement of coca cultivation coupled with increased interdiction efforts. Despite the Embassy's attempts to focus the relationship elsewhere, counter-narcotics is often the negative focal point of the bilateral relationship. Given President Morales' leadership of the Chapare-based coca federations, this is not surprising. Morales repeatedly called for "zero cocaine, not zero coca," drawing a distinction between illegal drugs and legal use of coca leaf, which is also chewed or brewed as tea. It should be noted that Bolivian coca production vastly exceeds licit demand, as the GOB tacitly accepts, having refused to proceed with a market study funded by the EU which would show just that.

¶12. (SBU) Per capita rates of illegal drug use in urban Bolivia approach U.S. levels, confirming that Bolivia is a consumer country and not merely a producer. Narcotics Affairs Section (NAS)-supported demand reduction efforts focus on local and regional partners due to central government indifference. NAS- and DEA-supported interdiction programs have been successful under the Morales government. Comparing 2006 to 2005, cocaine seizures were up 23 percent. Destruction of base labs and maceration pits were up 55 and 54 percent respectively. While Bolivian CN forces have improved coordination and efficiency, the increased seizures are due in part to increased supply.

¶13. (SBU) Anecdotal evidence suggests that coca plantings have grown dramatically since Morales' election, edging out other licit and less-profitable crops. And just as coca planting has increased, eradication is down. The GOB achieved its goal of eradicating 5,000 hectares in 2006, but has gotten off to a slow start in 2007. The Morales government has been unwilling to enforce Bolivian law (or informal agreements limiting coca cultivation), has stalled the launch of the licit demand study required by Bolivian law, and now is considering raising legal limits from 12,000 to 20,000 hectares nationwide (to include the Chapare). This increase would place Bolivia in violation of its own law and treaty obligations. In an attempt to justify increased coca growth, the GOB has announced plans to legalize and industrialize coca for use in products such as toothpaste, demand for which is notional, at best.

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COMMENT  
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¶14. (SBU) Your visit presents an opportunity to further our strategy of engagement with the GOB. We have expressed serious concerns about the Morales government's commitment to a democracy that includes separation of powers, checks and balances, an active political opposition and a free press. We continue to emphasize that what Morales says matters as much as what he does in terms of his attacks on the United States. On counter-narcotics, we have continued to support interdiction and eradication efforts, demand reduction programs, and capacity building, while engaging in frank discussions about the GOB's shortcomings and redirecting our support where it has greatest impact, i.e., to interdiction. Via USAID, we're spending about \$90 million annually to further social and economic inclusion of Bolivia's historically marginalized indigenous groups and to support democratic institutions and processes, including decentralized governance. In addition, USAID encourages economic growth for the poor through exports and trade, and also provides assistance in the areas of health, alternative development, and environmental protection. Your visit provides an additional opportunity to encourage Morales to follow a democratic path and to respect U.S. mining interests; to take counter-narcotics issues seriously and to become a true partner in fighting the flow of illegal drugs; and to take advantage of free trade and other opportunities, including the Millennium Challenge Account (MCA).  
End comment.